



## STAFF REPORT

DATE: JANUARY 17, 2012  
TO: HONORABLE MAYOR AND CITY COUNCIL  
FROM: AURELIO W. DE LA TORRE, CITY TREASURER  
PREPARED BY: AURELIO W. DE LA TORRE, CITY TREASURER  
SUBJECT: DELEGATION OF INVESTMENT AUTHORITY TO THE CITY TREASURER

### RECOMMENDED ACTION

The Treasurer recommends that the City Council delegate the investment authority to the City Treasurer.

### GOAL STATEMENT

The purpose of this Investment Policy is to provide governing guidelines for the City of Colton for prudent cash management and investment of public funds until such time as the funds are needed to pay the obligations of the City.

### BACKGROUND

The California Government Code, section 53607, allows the City Council to delegate the authority to invest funds of the City to the Treasurer for a one year period. This authority is valid for one year or until revoked.

### ISSUES/ANALYSIS

With the delegation of investment authority, the Treasurer assumes full responsibility for the planning, strategy and execution of investment for City pooled funds and bond proceeds. The Deputy Treasurer/Management Services Director provides backup in the absence of the Treasurer to insure a smooth operation and checks and balances.

### FISCAL IMPACTS

None

## **ALTERNATIVES**

1. Provide alternative direction to the City Treasurer.

## **ATTACHMENTS**

1. Investment Policy of the City of Colton
2. Resolution No. R-03-12

## INVESTMENT POLICY OF THE CITY OF COLTON

### I. Policy Statement

The purpose of this Statement of Investment Policy is to provide governing guidelines for the City of Colton for prudent cash management and investment of public funds until such time as the funds are needed to pay the obligations of the City.

### II. Investment Objective

. In accordance with Government Code Section 53600.3 the Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. In accordance with section 53600.5 "the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control."

I, the Treasurer, shall govern investment activities pursuant to the "prudent man rule" as defined in Section 2261 of the California Civil Code and as applied to the investment portfolio as a whole. The investment principle stated here is that in:

"...investing...property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable return of their capital..."

## INVESTMENT POLICY OF THE CITY OF COLTON

### III. The Treasurer's Authority for Making Investments

The Treasurer's authority for making investments has been granted by the City Council Resolution #\_\_\_\_ - dated January 17, 2012 as required by Section 53607 of the California Government Code. Further statutory authority for the Treasurer's investment functions and responsibilities may be found in Sections 53600, 53601, 53630, 53821, 53841, 53852 and 83859 et. seq. of the Government Code.

### IV. Legal Restrictions Pertaining to Investments

The law establishes certain restrictions on the types of securities and deposit classifications that are to be used in making investments of public funds. In certain instances, the law defines the maximum maturity, credit rating, and other criteria intended to minimize risk. The statutes containing the types of securities and deposits permissible for investment purposes by the City may be found in Sections 53601 et. seq. of the Government Code.

While the law defines the parameters for making investments, it does not define the risk. The Treasurer reserves the right to further restrict the investments permissible by law and to use his own discretion, in light of prevailing market conditions, the economy, and other factors, to limit the degree of risk at any moment in time. Except for specific policy restrictions which follow, those investments presently authorized by the Treasurer are shown in Schedule I.

### V. Treasurer's Specific Restrictions and Guidelines Governing Investments

The following restrictions apply to all investments purchased by the Treasurer:

1. Although permissible by statute, no investments are authorized in:
  - (a) Reverse Repurchase Agreements
  - (b) Small Business Administration Obligations.
  - (c) Bond Mutual Funds
  - (d) Collateralized Mortgage Obligations.
  - (e) Futures and options
2. All investment transactions shall be made after first having given consideration to risk and the credit worthiness of the financial institution, liquidity, and yields. All things being equal, investments shall be made with the institution offering the highest, competitive yield.

## INVESTMENT POLICY OF THE CITY OF COLTON

3. Whenever practical, investments shall be made on a competitive basis.
4. All deposits in banks and savings & loans associations exceeding FDIC or FSLIC insurance limits shall require collateralization as specified in Section 53649 and 53656 of the Government Code.
5. All investment purchases shall be limited to a maximum maturity date of five years (60 months) or less from the date of purchase, unless otherwise limited by statute.
6. All investments shall be purchased with the intent of holding them until their final maturity.
7. A copy of each investment transaction shall be given daily to the Accounting Department and monthly reports shall be filed with the City Council.
8. All investment transactions shall be immediately documented, recorded, and entered into the City's financial and accounting systems for purposes of accountability and control.
9. Purchased securities shall be deposited for safekeeping with a trust department of a state or nationally chartered U.S. bank with the exception of securities purchased directly from the Federal Reserve Bank. Securities and/or collateral shall not be held with an investment firm, in a broker/dealer account, or under any other safekeeping arrangement which does not effectively provide the City with immediate access, ownership, and total control over the securities.
10. Investment confirmations and collateral safekeeping receipts shall be reviewed promptly following their receipt in order to verify conformity with the Treasurer's investment transaction documentation.

### VI. Special Debt Financing

From time to time, the City Council may authorize the issuance of debt in accordance with State and Federal laws. Given the special requirements of such debt-repayment schedules, arbitrage/rebate requirements - the council may choose to place the investment of these funds with the City's fiscal agent. In such instances, the policy, objectives and investment restrictions shall be established by the Council by separate action and investment of such funds shall be governed by the indenture of trust.

# INVESTMENT POLICY OF THE CITY OF COLTON

## Schedule 1

The following list comprises those investments which are authorized by Section 53601 of the California Government Code and which are eligible for inclusion in the Treasurer's portfolio. Investment in any security, other than those authorized on this list, is prohibited.

<u>Authorized Securities</u>	<u>Purchase Restrictions</u>
U.S. Treasury Bills	
U.S. Treasury Notes Bonds	1
Federal Farm Credit Bank Notes	1
Federal Home Loan Banks	1
Federal National Mortgage Association	1
Bankers Acceptances both Foreign and Domestic	2, 3
Commercial Paper	4, 5
Certificates of Deposit	1, 6, 7
Repurchase Agreements	8
Corporate Medium Term Notes	1, 9
Money Market mutual funds	10
Local Agency Investment Fund	

### Notes:

1. All maturities are limited to a period of 5 years (60 months) from the date of purchase.
2. Maturities may not exceed 180 days nor exceed 30% of the portfolio at the time of purchase.
3. Purchases are limited to the world's 150 largest banks by size of deposits.
4. Maturities may not exceed 180 days, nor exceed 25% of the Treasurer's portfolio.
5. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
  - (1) The entity meets the following criteria:
    - (A) Is organized and operating in the United States as a general corporation.
    - (B) Has total assets in excess of five hundred million dollars (\$500,000,000).
    - (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).
  - (2) The entity meets the following criteria:
    - (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
    - (B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
    - (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their money in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635. No more than 10% of the portfolio may be invested in any one issuer. The portfolio may not hold more than 10% of any issuer's paper.
6. Purchase only insured or fully collateralized certificates of deposits issued on state or nationally chartered banks or savings and loan associations.
7. CD's may not exceed 20% of the Treasurer's portfolio at the time of purchase.

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8. Repurchase agreements are limited to a maximum 7-day maturity and may only be backed by U.S. Government or federal agency collateral. The market value of securities underlying a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.
9. Notes eligible for investment must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United states. Notes shall be rated in a rating category of "A" or better by a nationally recognized rating service if maturing in less than one year and "AA" or better if maturing in more than two years. Purchases may not exceed 30% of the portfolio.
10. Money market mutual funds must attain the highest ranking or the highest letter and numerical Rating by not less than two of the three largest nationally recognized rating services. The purchase price of the shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and shall not exceed 10% in any one fund and no more than 20% of the City's surplus money which may be invested pursuant to this section.
11. No more than 40% of the portfolio may be invested in Agency securities at any time.

Effective: January 17, 2012

Aurelio De La Torre  
Treasurer

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**THE CITY COUNCIL OF THE CITY OF COLTON RESOLVES AS FOLLOWS:**

PASSED, APPROVED and ADOPTED this 17<sup>th</sup> day of January, 2012.

ATTEST:

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